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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

GARY PIERCE, Chairman

SANDRA D. KENNEDY

PAUL NEWMAN

BOB STUMP

BRENDA BURNS

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
ARIZONA-AMERICAN, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY  
ITS AGUA FRIA WATER DISTRICT,  
HAVASU WATER DISTRICT, AND  
MOHAVE WATER DISTRICT

Docket No. W-01303A-10-0448

**Verrado Community Association,  
Inc.'s and DMB White Tank, LLC's  
Witness Testimony Summaries**

Verrado Community Association, Inc. and DMB White Tank, LLC, through their undersigned counsel, hereby provide notice of filing the attached witness testimony summaries pursuant to the June 15, 2011 Procedural Order Modifying Testimony Filing Schedule.

DATED this 10th of August, 2011.

RYLEY CARLOCK & APPLEWHITE

By Michele Van Quathem

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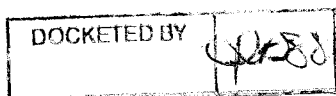
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Arizona Corporation Commission

**DOCKETED**

AUG 10 2011



1 ORIGINAL and 13 copies of the foregoing filed  
2 this 10th day of August, 2011, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 W. Washington  
6 Phoenix, Arizona 85007

7 FIVE copies of the foregoing mailed this  
8 10<sup>th</sup> day of August, 2011, to:

9 Commissioners' Assistants  
10 Commissioners' Wing  
11 Arizona Corporation Commission  
12 1200 W. Washington St.  
13 Phoenix, Arizona 85007

14 COPY of the foregoing mailed this  
15 10th day of August, 2011, to:

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### Summary of Melinda Gulick's Testimony

Melinda Gulick is the President of Verrado Community Association, Inc. (the "Association"). Ms. Gulick describes the Association's concerns regarding Arizona-American Water Company's proposed large residential and potable irrigation water rate increases, each of which, if granted, will significantly impact Verrado residents.

Verrado is a new community of homes and businesses located near the White Tank Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the community, approximately nine businesses and four schools. All of Verrado's water and sewer service is provided by Arizona-American Water Company.

The Association is a non-profit corporation that serves approximately 5892 current Verrado residents through a variety of services and community and recreational activities. The Association is seriously concerned about the impact of a large water rate increase on its current residents. Water rates were just increased approximately 26% in Arizona-American Water Company's December 2009 rate case (see Decision No. 71410). This concern is aggravated by a current proposal to increase the Agua Fria Wastewater District residential sewer rates up to 139.7% through a potential deconsolidation of the Anthem/Agua Fria Wastewater District in case number WS-01303A-09-0343.

Verrado's residents include many people who are on fixed or reduced incomes that have already been significantly impacted by adverse economic conditions in the Phoenix area in recent years. The Association opposes any unfair or untimely increases in water and sewer rates, especially during these trying economic times, and requests that the Commission carefully examine and consider in making its decision on this case all of the consumer comments and proposed remedies entered in this docket.

Verrado residents will also be impacted by increases to the Association's overall costs. The Association manages various physical facilities and landscaping within the commonly-owned areas throughout Verrado. Common areas are watered with potable water provided by Arizona-American Water Company. Effluent is not yet available at locations and in sufficiently reliable quantities to water landscaping for the Verrado Community Association.

The Association currently pays a rate of \$2.7280 per 1,000 gallons for delivery of potable irrigation water. In the current version of the schedules, the Company's proposed commodity rate appears to be a flat \$ 4.988622 for all meter sizes, plus a new base charge that varies by meter size. The proposed change in the commodity rate alone would increase costs for water 83% for the Association, equaling an estimated overall increase for test year usage (July 1, 2009-June 30, 2010) of \$392,000. This is an enormous and unreasonable increase, and cannot

1 be sufficiently mitigated by additional conservation. Ms. Gulick describes the steps the  
2 Association has already taken to conserve water.

3 The Association agrees with the flat commodity rate design proposed by Arizona-  
4 American Water Company for the new irrigation rates. Adding tiers to irrigation rates would  
5 not encourage further conservation by the Association because the Association already has  
6 economic incentive to conserve water.  
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**Rate Shock.** Mr. Simer testifies that the proposed rate has significant rate shock implications stemming from the placement of the White Tanks Regional Water Treatment Plant into the rate base. Without a sufficient customer base, the increase in revenue requirements will result in an 82.89% rate increase for the average residential customer in the Agua Fria Water District.

In addition, to mitigate the impact of the requested rate increase, Mr. Simer testifies that a phase-in of the rate increase would be appropriate. A phase-in would require Arizona-American to bear more of the cost risk for the White Tanks Plant, and would provide more time for recovery in the housing industry, potentially spreading the rate increase across additional customers.

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1        **Depreciation Rates.** Mr. Simer testifies against the request to change depreciation rates at  
2 this time. The adoption of new depreciation rates at this time would only increase the severity  
3 of the rate shock impact on the customers. Insufficient evidence has been provided that would  
4 demonstrate the need for new depreciation rates at this time. Rejecting the changes now will  
help to address rate shock.

5        **Infrastructure System Replacement Surcharge.** Mr. Simer testifies that the proposed  
6 infrastructure system replacement surcharge ("ISRS") should not be accepted by the  
7 Commission because (1) there is nothing extraordinary that would warrant the extraordinary  
8 ratemaking device and (2) the surcharge would allow Arizona-American to temporarily  
9 circumvent the Commission's responsibility to review plant placed into rate base, allowing  
Arizona-American to earn a greater return than what might be allowed.

10       **Capital Structure.** Mr. Simer testifies that short term debt should be included in the  
11 capital structure, but that updated balances should be used. Mr. Simer recommends the  
12 Commission adopt the capital structure as currently outlined in Rebuttal Exhibit TMB-1 of  
60.55% debt and 39.45% equity.

13       **Fuel and Power Expense.** Arizona-American's proposed updated Fuel and Power  
14 Expense should be adjusted to remove the projected average bill increase of 6.6% anticipated to  
15 result from an APS rate application filed on June 1, 2011 in Docket No. E-01345A-11-0224.  
16 This change is not known and measurable since that rate application has not yet been decided by  
the Commission.

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